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PACKARD MOTOR CAR COMPANY

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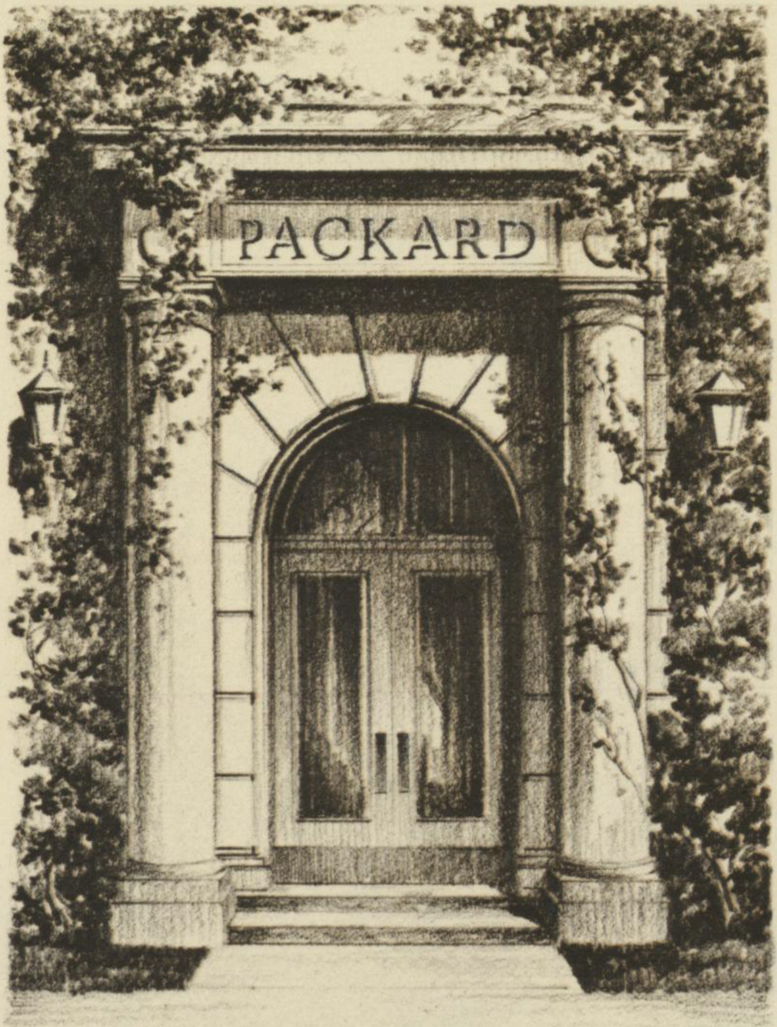
COMPANY


PACKARD

PACKARD MOTOR CAR COMPANY

Dewey, Bacon & Co.
Members New York Stock Exchange
50 Broadway New York

April, 1929

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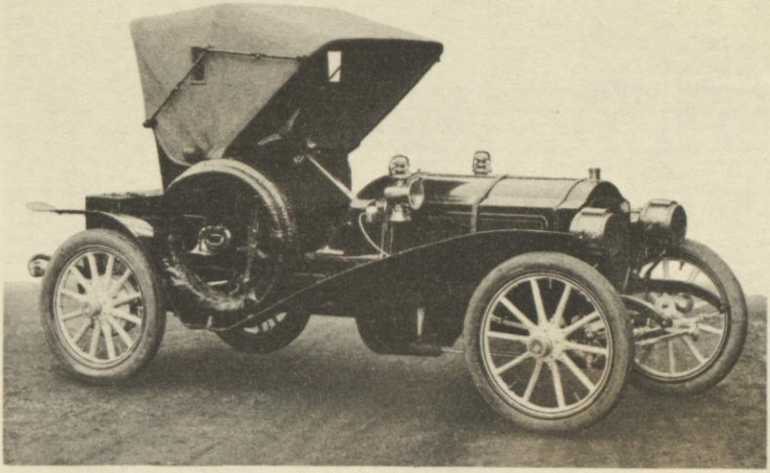


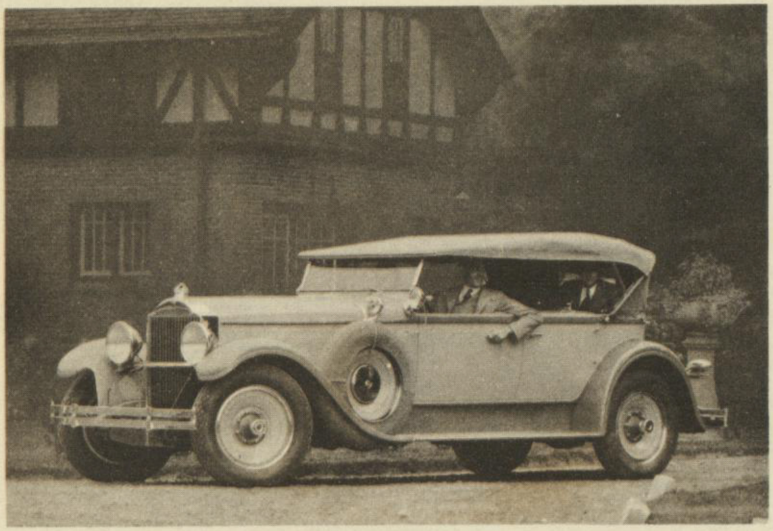
A Packard in 1910

PACKARD MOTOR CAR COMPANY

"PACKARDS", the principal product of the Packard Motor Car Co., were first offered to the automobile buying public nearly thirty years ago when a group of men in Warren, Ohio conceived the idea of producing a quality motor car at the lowest consistent cost.

Today, the Company is generally conceded to be the leading independent automobile manufacturer in the quality group and its product is probably more quickly and universally recognized than that of any other manufacturer. There are few small boys who cannot recognize a Packard whether it be a 1910 or 1929 model.

Such a reputation and such a consistency can only indicate a managerial policy that is both sound and sane. Widespread and growing recognition of such soundness and saneness is,



Packard in 1929

without doubt, responsible for the marked appreciation in quotations for Packard shares in recent years.

The Packard Motor Car Co. now has outstanding 3,004,264 shares of common stock, each of $10 par value. The preferred stock was redeemed at a premium in 1925 and the bonds, issued in the post-war adjustment period, were all paid off in 1923 after being outstanding but two years, so that present capitalization consists only of common stock. The Company's tangible assets consist of manufacturing plants, including real estate, sales branches and service stations including real estate and buildings, and liquid or current assets, these latter assets representing inventories, accounts receivable and cash or its equivalent in marketable securities. According to the Company's balance sheet as of February 28, 1929, total assets amounted to $74,930,525 but a discussion of the assets can be made more fittingly later on when the balance sheet will be reviewed in the light of evidence to be presented in the following pages.

PACKARD'S SUCCESS AND ITS REASON

During the last nineteen years the Packard Motor Car Co. has built and sold automobiles having a wholesale value of over $800,000,000 of which amount about one eighth was sold in the fiscal year ended August 31, 1928, when reported net profits were over $21,885,000. This figure may be contrasted with reported net profits for other periods as follows:

FISCAL YEAR	CARS SHIPPED FISCAL YEAR		TOTAL NET PROFITS FISCAL YEAR
1920	......		$ 6,395,468
1921	......	(d)	3,487,366
1922	11,688		2,115,828
1923	20,656		7,081,878
1924	15,815		4,805,174
1925	24,112		12,191,081
1926	34,016		15,843,586
1927	32,222		11,743,498
1928	47,178		21,885,416
6 Mos. 1929	28,367		15,382,161

(d) deficit.

Since the ending of the World War and the subsequent uncertainties Packard has therefore demonstrated a progressive ability to make money in a highly competitive industry, and it is the purpose of this analysis to determine if the causes of this lucrative progress are not sufficiently deep-rooted in business prudence to indicate the Company's continued success.

Packard Plant at Detroit

PACKARD'S TWO UNUSUAL ASSETS

In a general way, the basic methods of actual production differ but little between the various producers of motor cars. Competition becomes keener each year and with practically standardized methods of production, efficient distribution and satisfactory selling policies and methods have become of paramount importance. Packard, it may be contended, is unexcelled in the field of distribution.

Car manufacturing and selling profits are but a portion of Packard's total profits, however. The second remarkable factor in the Company's success is engineering and the fact that the Company has made this division of its activities profitable instead of a necessary expense. The engineering division not only maintains the Company's position as a car manufacturing and selling organization but also, through experimental, patent and aviation motor departments, furnishes a substantial portion of the Company's net income each year.

Stockholders in few motor car manufacturing companies can anticipate such proportionately large non-car profits, which not only smooth out fluctuations in automobile manufacturing activities but also furnish in themselves the means of paying a large part of dividends. To illustrate this, a table, taken from official sources, may be considered:

Fiscal Year	Car Mfg. Profits	Non-Car Profits	Total Profits	Common Dividends	Earnings Reinvested*
1922	$ 1,164,691	$ 951,137	$ 2,115,828	$..................	$ 1,080,542
1923	3,369,114	3,712,765	7,081,879	2,495,871	3,556,686
1924	1,204,346	3,600,828	4,805,174	2,852,424	812,419
1925	7,326,144	4,864,937	12,191,081	4,746,046	6,758,042
1926	10,307,226	5,536,360	15,843,586	8,302,221	7,541,365
1927	6,812,837	4,930,661	11,743,498	7,195,363	4,548,135
1928	15,892,220	5,993,196	21,885,416	12,442,912	9,442,504
6 Mos. to February 28 (Fiscal year ends August 31)					
1929	12,486,656	2,895,505	15,382,161	4,506,396	10,875,765

* After payment preferred dividends in 1925 and prior years.

Company's Control of Dealers Unique

To return to the first point of difference between Packard and many other automotive concerns, the Company's control of its distributors and dealers is, so far as known, peculiar to the Packard Motor Car Co. Wholly owned sales subsidiaries in the leading cities of the United States place cars directly in the hands of the ultimate buyer and a wholly owned foreign sales subsidiary with 233 foreign dealers in 60 different countries handled approximately 10% of all Packards in 1928.

Proving Ground

In addition to these wholly owned domestic and foreign sales branches, the Packard Motor Car Co. owns real estate in eight important sales centers which is leased to the independent Packard distributors in each area. While the rental of these properties nets the Company around $90,000 annually, their real value to the Packard Company lies in the control of the activities of such distributors to a degree that is but slightly less than in the case of the wholly owned and operated branches. The Packard parent organization is therefore:

1. *Directly conversant with the problems of the dealer.*
2. *Directly familiar with the reaction of the buying public to its products.*
3. *Recipient of profits which normally go to jobbers and wholesalers.*

The cumulative effect of direct contacts unquestionably is a large factor in the satisfaction most consumers find in dealing with the Packard sales organization and is perhaps why the Company has not been afraid to utilize its slogan, "Ask the man who owns one," to the utmost. At the same time the Company still has the advantage other companies derive from an independent dealer organization, for both the wholly owned branches and the distributors occupying buildings owned by the Company operate dealer organizations in their respective territories. In all, the Company has 961 domestic dealers providing a nation wide distribution of Packard cars.

Sales branches are wholly owned and operated in the following cities:

London, Eng.
New York City
Bronx, N. Y.
Newark, N. J.
Long Island City, N. Y.
Brooklyn, N. Y.
Hartford, Conn.
Springfield, Mass.
Chicago, Ill.
Hubbard Woods, Ill.
Lake Forest, Ill.
Evanston, Ill.
Milwaukee, Wis.
Detroit, Mich.
Flint, Mich.

Distributors in the following cities occupy property owned by the Packard Motor Car Co.:

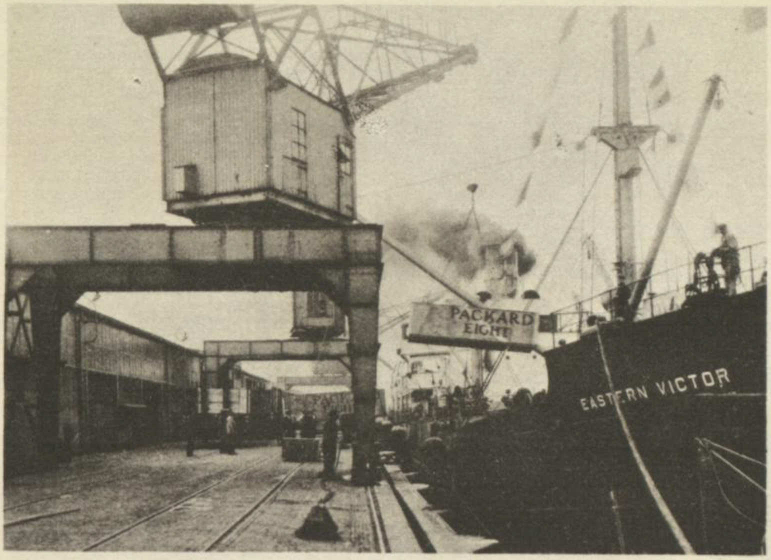
Kansas City, Mo.
New Orleans, La.
Jacksonville, Fla.
Atlanta, Ga.
Buffalo, N. Y.
Cleveland, O.
Boston, Mass.
Pittsburgh, Pa.

A further development of this direct dealing is the support given the wholesale force by the weight of the parent Company's experience and recognized financial position. If the statement that each dealer submits to the factory at frequent intervals

Paris Sales Room

shows a disturbing used car, new car or cash position the Company immediately furnishes or arranges for whatever assistance is necessary.

This direct interest in the dealer organization enables the Company to insist on proven sales methods based on uniform and equitable treatment of actual and potential customers. It is said, for instance, that Packard's used car policy is generally free of "horse trading" tactics and that price concessions to favored customers are practically unknown. This intelligent treatment of the public even extends to the introduction of new models. For example, when the eight cylinder models superseded the older sixes, the usual practice of forcing discontinued cars on dealers and the public was ignored. Rather, Packard announced a "clearance" sales reduction of

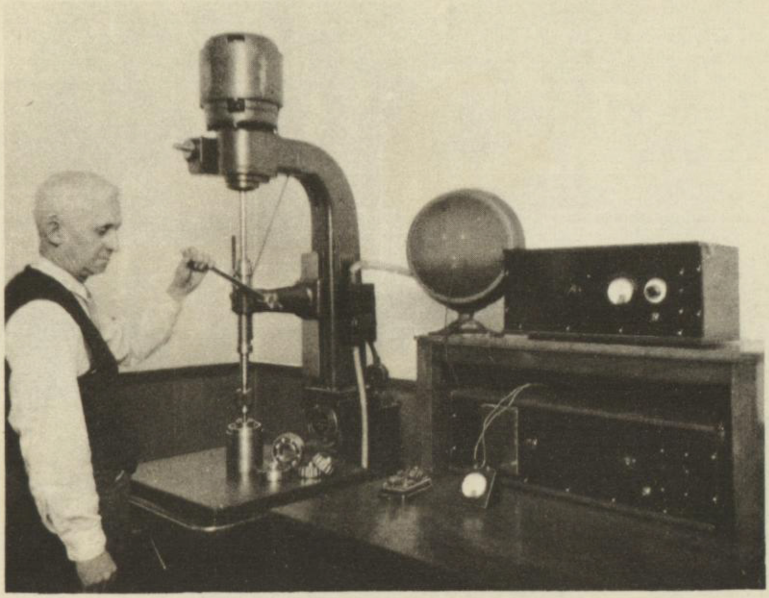


Unloading Packards from freighter

$300 on sixes in stock, permitting dealers to maintain an unimpaired profit margin and to close out the sixes for exactly what they were—a discontinued model.

Sales are followed up by an efficient service organization. A uniform schedule of prices for repair work, maintenance and parts, for example, is but a further development of the general sales policy of equitable treatment designed to make Packard owners effective salesmen of Packard cars and logical prospects for repeat business.

A large and profitable parts and accessory business has followed the growth of the service organization. In addition to such parts as may be stocked by various distributors, the Company maintains one entire building at the main plant in Detroit for stocking spare parts and accessories for any

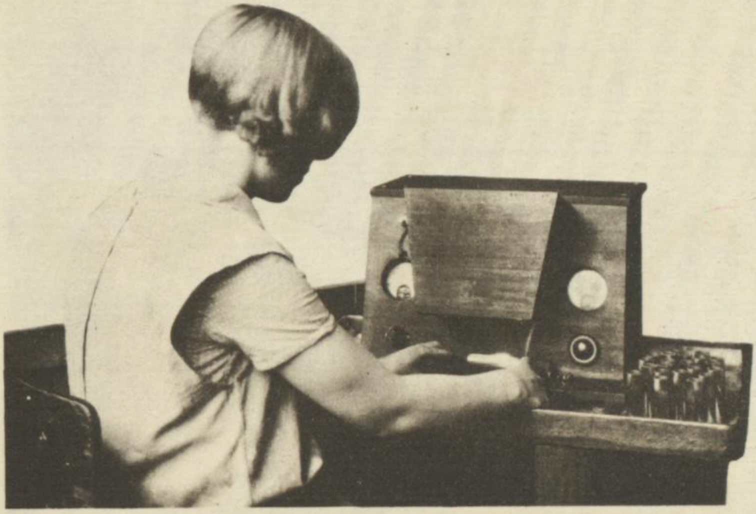


Testing bearings by radio amplification of rattle as revolved

Packard car or truck ever built, no matter how old. Prompt delivery of any necessary replacement part for a 1908, 1918 or 1928 model and its installation by trained service organization mechanics not only provides the Company with a steady source of revenue but also helps to further the Company's slogan, "Ask the man who owns one."

Engineering Division a Hidden Asset

Packard's other unusual and important asset is its engineering division which has been carried beyond the ordinary chassis and motor functions and become engaged in a wide range of activities. Certain of these activities are centered in maintaining Packard's position as a manufacturer of motor cars by developing improved methods or means of construc-



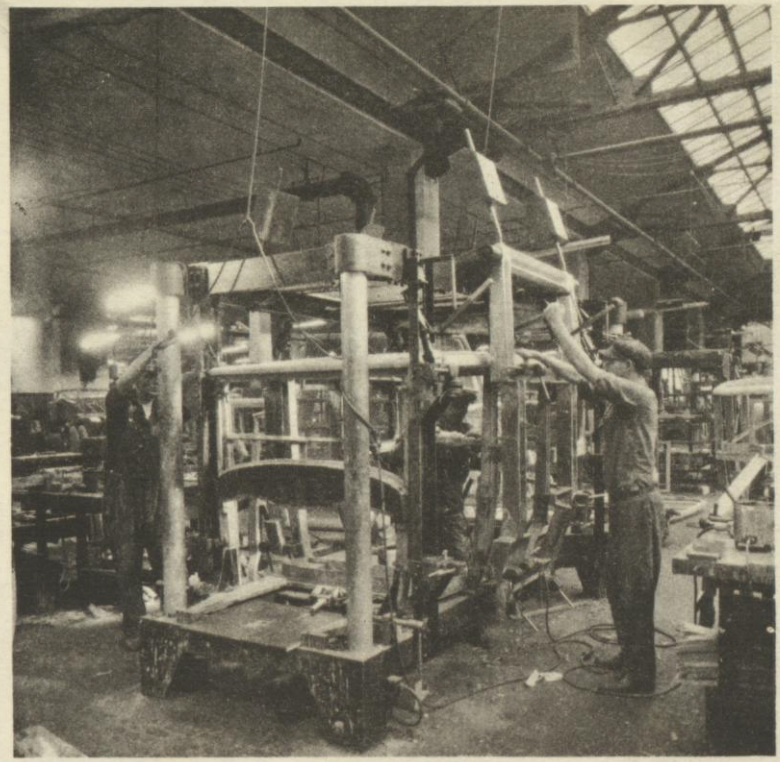
Testing size and finish by measuring reflected light

tion as well as improvements upon the car itself. Others are centered on the Company's aviation and marine motor production which is handled entirely apart from the operations of the car manufacturing departments and is a profitable business in itself. Still other activities of the engineering division center in the experimental laboratory which evolves and perfects the tools, devices and instruments used in improving the Packard Car and its method of construction as well as carrying on extensive research work in aviation motors. The patent department is closely allied with this experimental work, protecting the Company's interests in developments and negotiating patent purchases, sales and leases.

Many of the activities of the engineering division are

This reduced cost of striping 90%

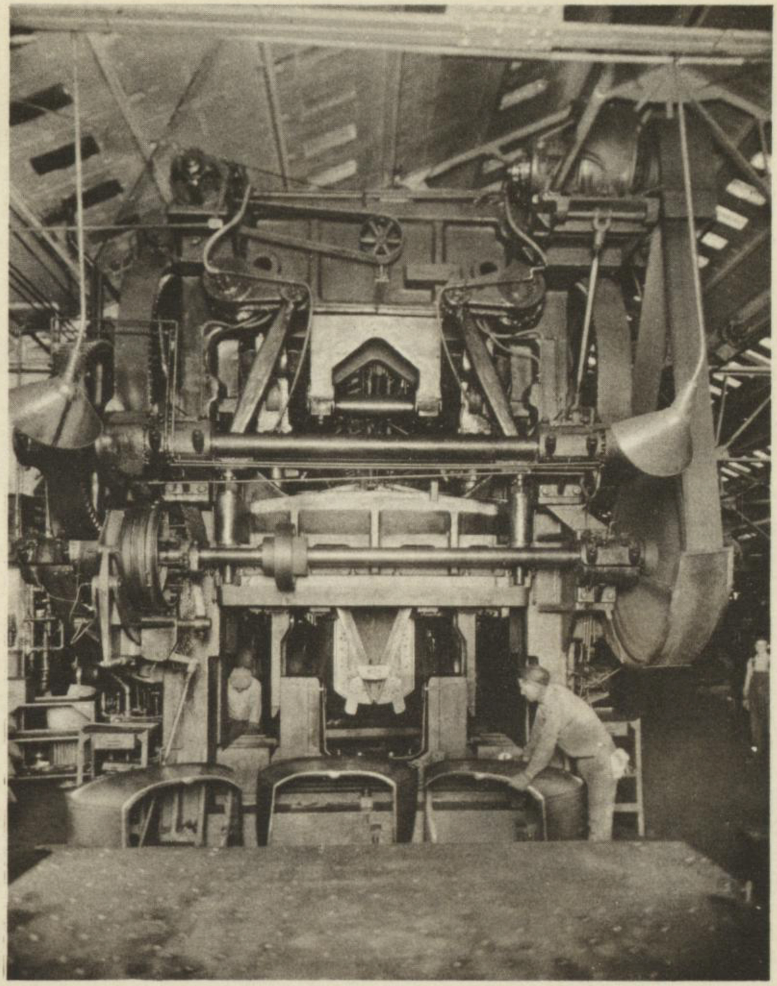
directed toward reduced costs of operation. Others are turned toward actual cash income from productive work and others to indirect but important revenue in the form of royalties and patents. In spite of widely varying activities the productive work of the division results in sufficient profit to more than offset all costs, leaving patentable developments and the income received from them clear gain to the Company and its stockholders.



Metal jig for rapid and rigid body assembly that has proved practical with Packard because of continuity of Packard body design, permitting use of jig without radical change from year to year

Manufacturing Cost Decreased

The fact that Packard has been able to maintain quality standards, steadily reduce the price of its cars, and yet make a satisfactory net profit per unit, is due in no small measure to the excellent activities of its manufacturing division which has been aided by the sound policy of reinvesting surplus earnings in improved plant facilities.



Stamping cowls from single sheet instead of welding three sections

While a detailed recital of manufacturing accomplishments might be tedious, an adequate idea of this important work may be gained from the accompanying photographs of typical operations and machines developed by this division. It is equally famed for its designing ability in this respect and many a manufacturing device created and used exclusively by the Packard manufacturing division, tends to lower manufacturing costs without decreasing quality, as the following cost table proves.

A corollary to its successful manufacturing practices is the Packard belief in manufacturing component parts of its car whenever it is possible to save profits by so doing, but to hold no false pride about "complete manufacture" if something equally good can be purchased to better advantage outside. In other words, the Company applies the acid test of cash results, rather than the sentimental appeal of a Packard product, to its business. This does not mean any sacrifice of quality, nor does it mean any lack of progress in endeavoring to capture accessory profits for the parent Company. Whenever it is clear that a liberal return can be prudently gained on an investment of earnings in a plant or department to produce a part that is purchased outside, Packard is prompt in seizing the opportunity. For instance, about three years ago the Company spent $350,000 for a remarkably efficient foundry, and about six years ago remodeled the old truck department into a body shop that has been built up to the point of supplying about 90% of body requirements at a material saving over "outside" cost.

Intelligent engineering and manufacturing practices have reduced costs and enabled Packard to lower the prices of its cars. Lower prices have brought larger sales with attendant proportionate reduction in overhead costs so that the average profit per car and the per cent of sales price saved for net earnings have tended to increase in spite of lower selling prices.

Packard is commonly reported to make a large profit on each car sold and it is true that total profits, applied to units sold, does give a high "average profit." However, this "average profit" includes earnings from operations in no way connected with car manufacturing. Upon eliminating these non-car profits it will be found that Packard's manufacturing profits alone are not materially larger than those of the average manufacturer when calculated on the basis of percentage of sales price. A table, bearing on these points, is given below:

FISCAL YEAR	AVER. SALES PRICE PER CAR	AVER. MFG. COST PER CAR	AVER. MFG. PROFIT PER CAR	% MFG. PROFIT OF SALES PRICE
1922	$3,250.	$.....	$....	.....
1923	2,695.	2,542.	153.	5.7%
1924	2,909.	2,835.	74.	2.5%
1925	2,508.	2,203.	305.	12.2%
1926	2,274.	1,971.	303.	13.3%
1927	2,240.	2,009.	211.	9.4%
1928	2,007.	1,668.	337.	16.8%

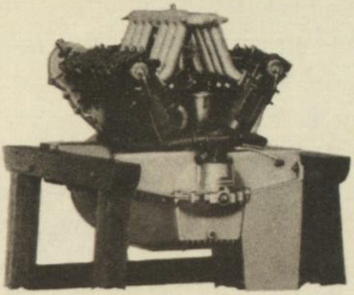
ENGINEERING AVIATION ACTIVITIES

Having pointed out the value of Packard's engineering division in car production, consideration may be given to other and equally important activities of the engineering organization, especially to production of aviation and marine motors. The work is said to net sufficient profits to cover all costs of the engineering division and is the natural outgrowth of Packard's long standing connection with the aviation industry. For example, prior to the war days Packard produced an aviation engine that was efficient for its day and early in the World War the engineering staff participated prominently in the development of the Liberty Motor. After its development Packard devoted almost its whole energy to the mass production of planes and Liberty Motors. Aviation work has been continued steadily since the war and in sufficient quantities to net the Company a good profit and keep the engineering division in close touch with the rapid growth of aviation and the changing needs of the industry.

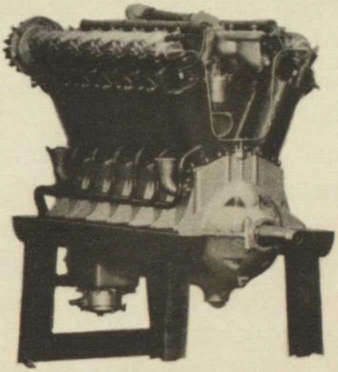
Packard's recent announcement of a high speed radial air cooled Diesel Motor for aviation use shows how closely the needs of the aviation industry have been followed. This Diesel motor is reported to develop about 200 H. P. and to weigh but three pounds per horse power which is very light for any aviation motor and for years was thought to be unattainable in a Diesel.

The advantages of a Diesel motor in point of operating cost, reliability, low maintenance charges and elimination of fire hazard have long been accepted by marine users. Only the weight factor prevented further adaptations of Diesel principles. Packard has overcome this feature, and as a consequence has broken ground for a Diesel aviation motor shop to be ready for occupancy about June 1st The new shop has a reported capacity of about 500 aviation Diesels a month, and should add materially to the Company's income from sources independent of automobile manufacturing.

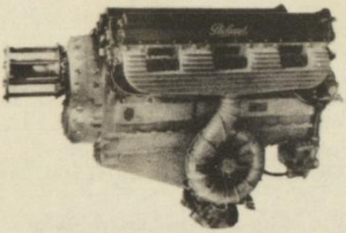
Research work with Diesel motors is being continued in an effort to develop a correspondingly light motor for marine



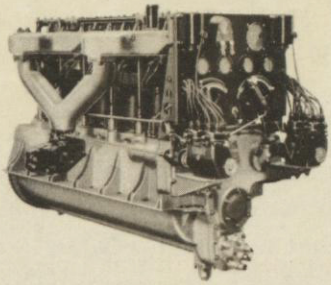
Pre-War Packard Aviation Motor



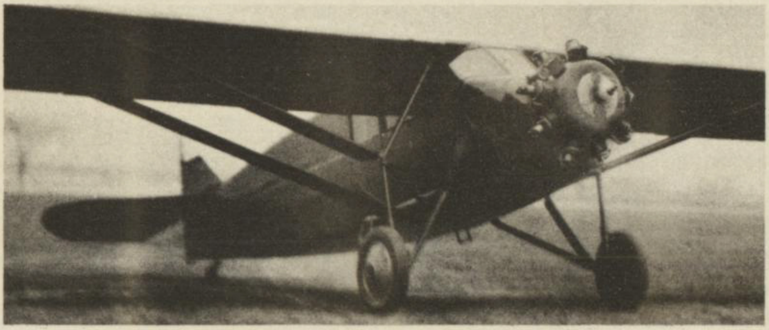
Wartime Liberty Motor



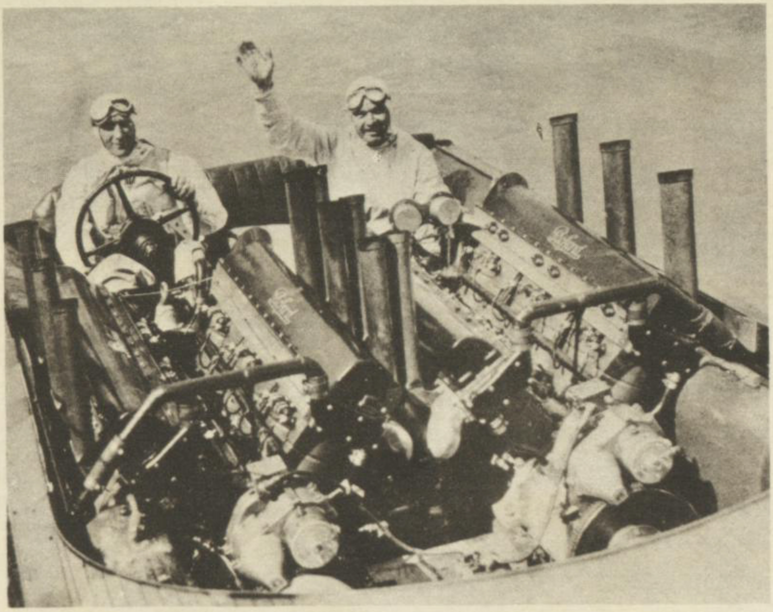
Modern Packard Aviation Motor with Double Supercharger Developing 1,000 H.P.



Packard Engine for Lighter-than-Air Service



Plane equipped with new Packard Aviation Diesel



Motor Compartment, "Miss America VII"

use, especially in small pleasure boats. Once developed to a commercial stage, such a marine engine would be assured of a large and profitable market. Packard, of course, already has a noticeable production of marine gasoline motors, especially for racing purposes, and it may be recalled that Gar Wood's recent world's record in "Miss America VII" was made with Packard Special Marine Motors.

ROYALTIES A SOURCE OF PROFIT TO PATENT DEPARTMENT

The third major function of the engineering division is patent research. Early in its history Packard began to develop and collect automotive patents. Today, the Company's patent position is reported to be one of the strongest in the industry, affording another example of the foresight of Packard management.

Packard's experimental laboratory has produced a number of important patentable inventions. One of the latest is the striping instrument, developed to reduce Packard's own operating expenses, and now used by several other motor car manufacturers on a royalty basis. The instrument is adaptable to use in other industries and promises to be a genuine source of income.

The Company has not been satisfied to rely wholly on the efforts of its own laboratory but for many years has obtained patents developed outside the Packard organization either by outright purchase or by royalty agreement. At the present time the Company is reported to be licensed under about three hundred, and to own approximately one thousand, patents ranging all the way from such old devices as the automatic spark advance, the "H" transmission slot and the foot throttle to such modern automotive developments as the Lanchester vibration dampener and the Packard shimmy absorber.

These patent holdings are reliably believed to bring in not only enough income to cover the expense of a well equipped legal department but also to carry a substantial net to the surplus account.

ACCOUNTING POLICIES CONSERVATIVE

The sound business policies that have guided the growth of the engineering department from chassis and motor development alone to a well rounded, productive engineering division drawing revenues from many sources are but a repetition of the policies governing the growth of the sales and service department from a single branch office to a large and profitable distributing organization. Accordingly, it is not surprising that the Company has established equally sound and conservative accounting policies

During the last six years the Packard Motor Car Co. has reinvested $40,429,000 of earnings in new buildings, machinery and real estate. Yet the book value of these assets on February 28, 1929, was but $32,501,273 or 80% of the money actually spent in the six year period.

This was accomplished by writing off $30,791,000 in depreciation charges and by conservatism in capitalizing additions and improvements in plant facilities. Furthermore, no write-up of real estate in Detroit, New York, Boston or other cities has been made. Heavy depreciation charges have not only reduced reported profits from year to year but also liquidated the property account to a point where it is meaningless as an indicator of the actual worth of the Company's fixed assets. A recent appraisal of buildings, machinery and real estate is said to have given a value, much in excess of, perhaps nearly twice, the $32,500,000 at which they are carried on the books of the Company. The large patent holdings of the Company, its royalty rights and the good will built up during thirty years of effort are lumped together and valued at $1.00 in the Company's balance sheet.

Surely, there is no inflation in the fixed assets of the Packard Motor Car Co.

A balance sheet taken from official sources giving the detailed figures at which assets and liabilities are carried, follows:

SIMPLIFIED BALANCE SHEET

As reported for February 28, 1929.

Plant, Real Estate and Buildings in Detroit and leading metropolitan cities, including machinery, fixtures, tools, equipment etc. after depreciation.	$32,501,273
Good Will, franchises and inventions.	1
Mortgages and land contracts on property for which Company has no further use, sold by Packard Motor Car Co. and having this balance due thereon.	2,220,048
CURRENT ASSETS	
Cash in banks and on hand.	3,546,057
U. S. Government, state and municipal securities.	15,822,777
Accounts and notes receivable: amount due on cars and parts sold to distributors and dealers, secured.	8,706,732
Inventories at or below cost, consisting of raw material, work in process and finished motor carriages.	11,811,115
TOTAL CURRENT	$39,886,681
Prepaid insurance and other expenses chargeable to future operations.	322,523
TOTAL ASSETS	$74,930,525
CURRENT LIABILITIES	
Amount due vendors for material and payroll.	$ 1,093,160
Miscellaneous amount not due, including deposits of distributors.	1,020,543
Provision made for the payment of Federal Income Tax on earnings.	3,704,084
Dividends declared payable to stockholders March 30, April 30 and May 31, 1929.	3,755,330
TOTAL CURRENT LIABILITIES	$ 9,573,117
Common stock, 3,004,264 shares at $10 par value.	30,042,640
Surplus.	35,314,768
TOTAL LIABILITIES	$74,930,525

Conclusion

From inception in 1900, the Packard Motor Car Company has adhered to the fundamental policy of producing a quality product at the lowest consistent cost.

This continuity of ideals may be attributed in no small part to the permanency of the Packard Directorate where changes have been rare, except following the death of a member.

Today, the Company is generally acknowledged to be the leading independent manufacturer in the quality group and the Company's appreciation of its position and responsibility are perhaps best stated by President Alvan Macauley:

> "*Reputation is never completely earned—it is always being earned. It is a reward—but in a much more profound sense it is a continuing responsibility.*"

With a directorate of but seven men, all successful, all seriously interested financially and sentimentally in the success of their concern, it is easy to understand why Packard has, like the shoemaker who stuck to his last, shown consistent soundness and saneness. While part of an industry that has made endless futile efforts to be distinguished, Packard has minded its own business and its own profits. It is not strange, therefore, that Packard demonstrates a growth in earnings that has lifted quotations for its stock from a level of about 16 at the time of ex-President Coolidge's election in 1924 to current figures. This analysis, it would appear, shows that the success is rooted in business prudence, is of no recent origin and that the compactness and permanency of the Company's management give every reason to believe that the success will not only continue, but that it may, through further sound and sane development, become even greater. We make no prophecy as to the future course of quotations for Packard stock, but we do insist on the excellence and wisdom of Packard management.

This information has been obtained from sources we consider reliable but is not guaranteed by us.

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